

AUDIT SUMMARY

Our audit of the State Council of Higher Education for Virginia for the two-year period ended June 30, 1998, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no matters involving the internal control structure and its operation that we consider material weaknesses; and
- no instances of noncompliance that are required to be reported.

January 27, 1999

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Richard J. Holland
Chairman, Joint Legislative Audit
and Review Commission
Richmond, Virginia

FINANCIAL HIGHLIGHTS

The **State Council of Higher Education for Virginia** (the Council) has three major functions: to promote development of a coordinated system of higher education in Virginia, to administer certain state and federal student financial aid programs, and to be an advocate for institutions of higher education in the General Assembly. The Council approves new degree programs and reviews and approves the enrollment projections of the state-funded institutions. These projections help determine operating budgets and capital outlay recommendations, as well as student assistance funding.

The Council had general fund appropriations of \$33.6 million in fiscal 1997 and \$37.9 million in fiscal 1998 which represents approximately 95 percent of the Council's funding. Most of the rest is from federal grants totaling \$1.3 million in fiscal 1997 and \$1.8 million in fiscal 1998. The Council also receives donations to fund college faculty awards and an annual awards banquet. Below are the Council's expenses:

Expenditure Type	1997		1998	
	Amount	Percent	Amount	Percent
Student financial aid and other assistance	\$31,286,124	90.1%	\$35,812,845	90.7%
Personal services	2,569,508	7.4%	2,586,479	6.6%
Contractual services	522,772	1.5%	638,495	1.6%
Other	359,185	1.0%	427,870	1.1%
Total	\$34,737,589	100%	\$39,465,689	100%

Student financial aid includes \$34.3 million for undergraduate scholarships and \$550,000 for graduate scholarships in fiscal 1998. Approximately 86 percent of the scholarship expenditures are from the Tuition Assistance Grant (TAG) program and the College Scholarship Assistance Program (CSAP). The TAG program contributes funds for assistance of students attending private, not-for-profit institutions, while CSAP funds are available to any undergraduate or graduate student. Not included in these amounts are \$7.8 million in fiscal 1997 and \$7.6 million in fiscal 1998 that the Council directly transferred to state-supported colleges and universities under the Eminent Scholars, Virtual Library, and other programs.

VIRTUAL LIBRARY OF VIRGINIA

The Virtual Library Project links libraries at 39 state-supported institutions across the Commonwealth. This allows sharing of material between the schools without the unnecessary duplication of resources. The Virtual Library has made thousands of titles available to students enrolled in these institutions. In the two-year period ended June 30, 1998, the Council spent nearly \$4 million on this project.

This project should allow the institutions to provide additional resources to their students and faculty through sharing as well as increasing the institution's purchasing power through group purchases for electronic sources. The Virtual Library's 1999-2000 budget includes additional funding for technical equipment, increased subscriptions to resources, and expanded staff training.

COMMONWEALTH HEALTH RESEARCH FUND

When Blue Cross and Blue Shield of Virginia converted from a mutual insurance company to a corporation, Trigon Healthcare, Inc., the Commonwealth received stock in the new company as a part of the conversion. At the direction of the General Assembly, the Commonwealth placed the proceeds into the Commonwealth Health Research Fund. The Fund plans to provide research and other grants to promote health and medical research. Present plans will use 90 percent of the Fund's investment income for grants. The Virginia Retirement System invests and manages the funds, the Commonwealth Health Research Board oversees the administration of the grants, and the Council provides administrative and accounting support to the Board.

The Commonwealth received the stock on August 5, 1997, which it sold systematically thereafter. The balance in the fund at June 30, 1998 was \$23.3 million. The Board is reviewing the methods and means of making grants and will not award any grants until after December 31, 1999. Effective July 1, 1999, the Commonwealth Health Research Fund will transfer to the newly created Commonwealth Health Research Authority.

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the State Council of Higher Education for Virginia for the two-year period ended June 30, 1998. We conducted our audit according to the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to review the adequacy of the Council's internal control structure, test compliance with applicable laws and regulations, and evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over significant cycles, classes of transactions, and account balances including fixed assets, cash receipts, and expenditures including payroll.

We obtained an understanding of the relevant policies and procedures for these internal accounting controls. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether policies and procedures were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

Management has responsibility for establishing and maintaining an internal control structure and complying with applicable laws and regulations. The objectives of an internal control structure are to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are processed in accordance with management's authorization, properly recorded, and comply with applicable laws and regulations.

Our audit was more limited than would be necessary to provide an opinion on the internal control structure or on overall compliance with laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of the internal control structure to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Audit Conclusions

We found that the State Council of Higher Education for Virginia properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Council records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted no matters involving the internal control structure and its operation that we considered to be material weaknesses. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

The results of our tests of compliance with applicable laws and regulations found no instances of noncompliance that we are required to report under Government Auditing Standards.

This report is intended for the information of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this report with management on March 26, 1999.

AUDITOR OF PUBLIC ACCOUNTS

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Richmond, Virginia

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